TANGIBLE CAPITAL ASSETS POLICY

ADM 016 – 09

Effective Date: January 1, 2009

POLICY

The Village of Haines Junction will follow a prescribed policy to record and manage the tangible capital assets (TCA) owned by the Village of Haines Junction (Village). The treatment of TCA for accounting purposes is intended to be in accordance with Generally Accepted Accounting Principles (G.A.A.P) and with the Public Service Accounting Board (PSAB).

PURPOSE

The purpose is to establish a tangible capital assets policy to comply with PS 3150. PSAB 3150 establishes standards on how to account for and report tangible capital assets in government financial statements. It is set up to enable public governments to better account for significant economic resources, including roads, buildings, vehicles, equipment, land, water and other utility systems, computer hardware and software, and other assets as outlined in PSAB section 3150.

SCOPE

This policy applies to all Village of Haines Junction departments.

DEFINITIONS

Additions: Additions occur when an existing asset is extended, enlarged or expanded and the service capacity or physical output of the property is increased.

Amortization: The allocation of the cost of the tangible capital asset to operating periods as an expense over the useful life of the tangible capital asset on a straight line basis.

Betterments: Subsequent expenditures on tangible capital assets that will increase previously assessed physical output or service capability, lower associated operating costs, extend the useful life of the asset or improve the quality of output.

Capital Lease: A capital lease is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Village. One or more of the following conditions must be met:

a) there is reasonable assurance that the Village will obtain ownership of the leased property at the end of the lease term.

b) the lease term is of such a duration that the Village will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.

c) the lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

Capitalization Thresholds: Capitalization thresholds relate to the minimum dollar amount that is used to assist in determining which expenditures will be capitalized as assets and amortized and which expenditures will be treated as current year expenses.

Net Book Value: The cost less accumulated depreciation and less the amount of any write downs.

Pooled Assets: Assets that have a unit value below the capitalization threshold but have a material value as a group will be recorded as a single asset with one combined value. Although recorded in the financial system as a single, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance. Examples could include personal computers, furniture and fixtures, small moveable equipment etc.

Rearrangements: Rearrangements are the re-installation or re-routing of asset components to achieve greater service efficiency or effectiveness of the asset. It is a change to the internal arrangement or other physical characteristics of an existing asset so that it may be effectively used. An example would be if the municipal office relocated to the ground floor of the Convention Centre.

Replacements: Replacements involve the removal of component parts and substitution of a new part or component of essentially the same type and performance capabilities.

Straight-line Method: Method of amortization in which the periodic charge is computed by dividing the cost base of the asset by its estimated useful life.

Tangible Capital Assets: Non financial assets having physical substance that are acquired, constructed or developed and are held for use in the production or supply of goods and services, have useful lives extending beyond one year, are used on a continuing basis and are not intended for sale in the ordinary course of operations.

Upgrades: Upgrades involve the removal of a major part or component of an asset and the substitution of a different component to significantly improve performance capabilities beyond the property's original design standard.

POLICY STATEMENTS

1. Effective January 1, 2009, all tangible capital assets shall be budgeted, financed and reported as such on the financial statements of the Village of Haines Junction.

2. A tangible capital asset is as defined in PS3150, having a minimum value of $5000.00, including non refundable taxes and directly attributable acquisition expenses.

3. All assets with an individual total value of less that $5000.00 shall be expensed in the year of acquisition and charged against the operating budget of the department acquiring the asset.

4. Assets that have a unit value below the capitalization threshold but have a pooled value that exceeds the threshold level shall be capitalized.

5. Studies and other initiatives that do not directly relate to the acquisition of a tangible capital asset shall not be capitalized, but shall be expensed in the year(s) in which they occur.

6. Tangible capital assets shall be amortized on a straight line basis. Land and land components of tangible capital assets, such as plants, shall be recorded at cost and not amortized. Current and future landfill sites shall be amortized on the basis of gate tonnage processed as a percentage of rated capacity, although at the present time, the management of the landfill does not provide the data required for this method of amortization.

7. Tangible capital assets shall be deemed to have no residual value for the purposes of calculating amortization.

8. Capitalization shall be deemed to occur at the time of transfer of ownership from the vendor to the Village of Haines Junction. Tangible capital assets that are to be developed or constructed shall be capitalized on the earlier of the day that the asset goes into service or that ownership/responsibility/control is transferred over to the municipality.

9. Annual amortization expense shall be calculated and included in the annual budget of each respective department. Yukon Government Community Services has recognized that Yukon municipalities do not have funds available to create capital replacement accounts, and for the foreseeable future, this is essentially a paper exercise with no financial transfers associated with it.

10. It is recognized that amortization based on historical cost will usually be insufficient to finance replacement or betterment of tangible capital assets, and that additional financing will likely be required for maintaining and sustaining the municipality's tangible capital assets.

ASSET VALUATION

1. Purchased Assets: Cost is the total paid to acquire the asset plus all nonrefundable taxes, duties, freight, installation and site preparation costs.

2. Acquired, Constructed or Developed Assets: Cost includes all amounts paid for the acquisition, construction or development of the asset.

3. Donated or Contributed Assets: The cost of donated or contributed assets is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values. Ancillary costs such as freight or installation should be capitalized.

4. Capitalization of Interest Cost: Borrowing costs incurred by the acquisition, construction and production of an asset that takes a substantial period of time to get ready for its intended use should be capitalized as part of the cost of that asset.

5. Original Value of Asset is Unknown: In the case where historical records cannot be located in order to value an asset, replacement value will be determined. This amount will be discounted back to the date the asset was constructed/acquired, using the Consumer Price Index to estimate historical cost.

SINGLE APPROACH VERSUS COMPONENT APPROACH

Single Asset approach considers an asset to be an assembly of connected parts. Cost of all parts would be capitalized and amortized as one asset.

Component approach considers different components of an asset to be individually capitalized and amortized.

It is necessary to determine whether or not it is cost beneficial to segregates assets into their component parts. Where it would be relatively difficult to track the individual components of a particular asset and there are no clear benefits to doing so the single asset approach would be used.

On a go forward basis, the component approach should be utilized where asset components have a different useful life than the asset as a whole such as roofing, furnaces, flooring and BST.

ASSET LEDGERS AND CONTROL

An asset ledger will be started and maintained for each tangible capital asset owned by the Village. A sample of the asset inventory form to be maintained for each tangible capital asset is attached as Schedule A. The treasurer will maintain these forms in the asset ledger and verify their accuracy with department heads on an annual basis.

BETTERMENTS, REPLACEMENTS, ADDITIONS, UPGRADES, REARRANGEMENTS

Betterments, replacements, additions, upgrades and rearrangements as defined in the definitions section should be capitalized when they meet the threshold of the applicable asset class.

TRADE-INS

A trade-in occurs when an asset is disposed and replaced with a new asset through the same supplier in the same transaction. This transaction should be accounted for as two separate entries. The trade-in value should be treated as proceeds of disposition and is used in calculating the gain or loss in the disposal of the asset being traded-in, against the depreciated value. The new asset acquired is recorded at its full cost. Trade-in value for the old asset does not affect the cost of the new asset.

DISPOSALS

The disposal of a capital asset results when an asset is removed from service as a result of sale, destruction, loss or abandonment. The cost and accumulated amortization should be removed from the accounting records and any gain or loss is recorded at that time. Costs that are associated with the disposal and paid by the Village should be expensed.

WRITE DOWN/OFF

A capital asset should be written down when a reduction in the value of the asset's service potential can be measured and the reduction is expected to be permanent. Write downs of capital assets should be accounted for as an expense in the current period. Annual amortization of an asset that has been written down should be calculated using the net book value after the write down and the remaining estimated useful life. Conditions that indicate a write down is necessary may include a change in the manner or extent to which the asset is used. Examples would include:

- removal of the asset from service
- physical damage
- significant technological developments
- a decline in, or cessation of the need for the service provided by the asset
- a decision to halt construction of the asset before complete or in a usable or salable condition
- a change in the law or environment affecting the extent to which the asset can be used

ASSE ATEGORIZATION, CAPITALIZATION THRESHOL ESTIMATED USEFUL LIFE AND AMORTIZATION

CATEGORY	THRESHOLD	USEFUL LIFE	AMORTIZATION
Land	All Land	Indefinite	N/A
Land Improvements	$5000	20 years	Straight line
Buildings	$25,000	40 years	Straight line
Buildings – components	$5,000	10 years	Straight line
Engineered Structures	$25,000	20 years	Straight line
Engineered Structures – roadways	$25,000	25 years	Straight line
Engineered Structures – BST	$25,000	10 years	Straight line
Engineered Structures - water systems	$25,000	50 years	Straight line
Engineered Structures – wastewater systems	$25,000	50 years	Straight line
Machinery and Equipment – heavy equipment	$5,000	15 years	Straight line
Machinery and Equipment – operating equipment	$5,000	10 years	Straight line
Machinery and Equipment – small equipment and furnishings	$5,000	10 years	Straight line
Machinery and Equipment – electronic	$5,000	3 years	Straight line
Vehicles	$5,000	7 years	Straight line

Land: includes land for parks, recreation, building sites, infrastructure, and other program use
Land Improvement: includes all improvements of a permanent nature including parking lots, landscaping, lighting, pathways, fencing, landfill site development, retaining walls, soccer fields, grading whose purpose is to serve as a base for maintaining infrastructure.
Buildings: permanent, temporary or portable building structures intended to shelter persons, animals and/or goods, machinery, equipment and work spaces. Excludes buildings or structures used to provide water or sewer treatment.
Engineered Structures: permanent structural works including utility plants and substations
Engineered Structures – roadways: includes roads, bridges, streetlights, sidewalks, boardwalks and signage
Engineered Structures – water systems: assets for the intake, distribution, storage and treatment of safe potable water and assets required to distribute non-potable water. Includes mains, services, pump and lift stations, plants and equipment, reservoirs and fire hydrants.
Engineered Structures – wastewater systems: assets used for collection and treatment of non potable water, including mains, services, pump and lift stations, plants, equipment and lagoons.
Machinery & Equipment – heavy equipment: forklifts, tractors, heavy duty trucks, loaders, graders, fire trucks and Zambonies. Excludes stationery equipment used in the engineered structures class
Machinery & Equipment – operating equipment: tools, workshop equipment, fire equipment, generators, ice plants
Machinery & Equipment – small equipment and furnishings: furnishings and equipment for all municipal facilities.
Machinery & Equipment – electronic: computers, photocopiers, printers
Vehicles – rolling stock used primarily for transportation services, including utility trailers.

Public Works - Public Works Shop

Year Acquired	Item	Purchase Cost	Years/Rate	Depreciation to Dec 31/08	Depreciation 2009	Depreciation 2010	Depreciation 2011	Depreciation 2012	Depreciation 2013	Depreciation 2014	Remaining Value
1983	New Shop	$81,621.00	40 - 2.5%	$53,053.65	$2,040.53						$26,526.82
1984	New Shop	$81,010.00	40 - 2.5%	$50,631.25	$2,025.25						$28,353.50
1987	Shop Fencing	$12,908.00	20 - 5%	$12,908.00	$0.00						$0.00
1993	Shop Expansion	$49,496.22	40 - 2.5%	$19,798.49	$1,237.41						$28,460.32
1994	Shop Interior	$23,154.37	40 - 2.5%	$8,682.89	$578.86						$13,892.62
1994	Shop Fencing	$13,229.68	20 - 5%	$9,922.26	$661.48						$2,645.94
1995	Shop Completion	$15,060.10	40 - 2.5%	$5,271.04	$376.50						$9,412.56
1996	Shop Ventilation	$10,036.39	10 - 10%	$10,036.39	$0.00						$0.00
2005	Shop Extension	$25,460.33	25 - 4%	$3,055.24	$1,018.41						$21,386.68
2007	Double Door Container	$7,000.00	40 - 2.5%	$350.00	$175.00						$6,475.00
											$0.00
Totals		$318,976.09		$173,709.21	$8,113.44	$0.00	$0.00	$0.00	$0.00	$0.00	$137,153.44

Sample Schedule A

Asset Ledger for Public Works Shop